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GT ADVANCED TECHNOLOGIES INC.

FORM 10-Q
(Quarterly Report)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 28, 2013

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period to

Commission file number: 001-34133

GT Advanced Technologies Inc.
(Exact name of registrant as specified in its charter)

Delaware (State of incorporation)	**03-0606749** (I.R.S. Employer Identification No.)
243 Daniel Webster Highway **Merrimack, New Hampshire** (Address of principal executive offices)	**03054** (Zip Code)

Registrant's telephone number, including area code: **(603) 883-5200**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicated by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 1, 2013, approximately 123,830,191 shares of the registrant's common stock, $0.01 par value per share, were issued and outstanding.

PART I—FINANCIAL INFORMATION

Item 1— *Financial Statements*

GT Advanced Technologies Inc.
Condensed Consolidated Balance Sheets
(In thousands, except per share data)
(Unaudited)

	September 28, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 258,472	$ 418,095
Accounts receivable, net	7,471	23,829
Inventories	123,189	133,286
Deferred costs	2,274	30,248
Vendor advances	12,630	32,440
Deferred income taxes	22,937	28,226
Refundable income taxes	—	1,516
Prepaid expenses and other current assets	6,340	9,168
Total current assets	433,313	676,808
Property, plant and equipment, net	65,755	77,980
Other assets	92,081	86,920
Intangible assets, net	98,918	90,516
Deferred cost	26,344	24,423
Goodwill	54,765	48,021
Total assets	$ 771,176	$ 1,004,668
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	$ 9,063	$ 7,250
Accounts payable	20,326	44,848
Accrued expenses	46,947	30,928
Contingent consideration	1,294	4,901
Customer deposits	36,218	111,777
Deferred revenue	13,700	86,098
Accrued income taxes	11,982	21,716
Total current liabilities	139,530	307,518
Long-term debt	86,875	132,313
Convertible notes	165,390	157,440
Deferred income taxes	6,034	24,459
Customer deposits	55,598	71,340
Deferred revenue	48,613	35,848
Contingent consideration	16,229	5,414
Other non-current liabilities	2,418	2,323
Accrued income taxes	27,748	25,762
Total liabilities	$ 548,435	$ 762,417
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, 10,000 shares authorized, none issued and outstanding	—	—
Common stock, $0.01 par value; 500,000 shares authorized, 123,758 and 119,293 shares issued and outstanding as of September 28, 2013 and December 31, 2012, respectively	1,237	1,193
Additional paid-in capital	208,631	183,565
Accumulated other comprehensive income	1,066	806
Retained earnings	11,807	56,687
Total stockholders' equity	222,741	242,251
Total liabilities and stockholders' equity	$ 771,176	$ 1,004,668

See accompanying notes to these condensed consolidated financial statements.

GT Advanced Technologies Inc.
Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Revenue	$ 40,291	$ 110,061	$ 266,397	$ 631,203
Cost of revenue	22,514	75,033	176,389	383,641
Gross profit	17,777	35,028	90,008	247,562
Operating expenses:				
Research and development	21,075	18,767	56,039	47,954
Selling and marketing	3,496	3,123	10,870	9,657
General and administrative	17,427	15,428	48,507	45,731
Contingent consideration expense (income)	4,971	(9,943)	997	(9,261)
Restructuring charges	4,010	—	6,868	—
Amortization of intangible assets	2,976	2,538	8,098	7,631
Total operating expenses	53,955	29,913	131,379	101,712
(Loss) income from operations	(36,178)	5,115	(41,371)	145,850
Other income (expense):				
Interest income	122	27	286	50
Interest expense	(6,456)	(1,620)	(20,462)	(3,398)
Other, net	62	(431)	73	(968)
(Loss) income before income taxes	(42,450)	3,091	(61,474)	141,534
(Benefit) provision for income taxes	(4,304)	747	(16,594)	45,360
Net (loss) income	$ (38,146)	$ 2,344	$ (44,880)	$ 96,174
Net (loss) income per share:				
Basic	$ (0.31)	$ 0.02	$ (0.37)	$ 0.81
Diluted	$ (0.31)	$ 0.02	$ (0.37)	$ 0.80
Weighted-average number of shares used in per share calculations:				
Basic	122,183	118,769	119,752	118,873
Diluted	122,183	119,874	119,752	120,126

See accompanying notes to these condensed consolidated financial statements.

GT Advanced Technologies Inc.
Condensed Consolidated Statements of Comprehensive (Loss) Income
(In thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Net (loss) income	$ (38,146)	$ 2,344	$ (44,880)	$ 96,174
Other comprehensive (loss) income, net of tax:				
Change in fair value of cash flow hedging instruments, net of tax effect of $0, ($274), $11 and ($1,268), respectively	—	338	(54)	1,752
Foreign currency translation adjustments	66	192	314	(62)
Other comprehensive income	66	530	260	1,690
Comprehensive (loss) income	$ (38,080)	$ 2,874	$ (44,620)	$ 97,864

See accompanying notes to these condensed consolidated financial statements.

GT Advanced Technologies Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended September 28, 2013	Nine Months Ended September 29, 2012
Cash flows from operating activities:		
Net (loss) income	$ (44,880)	$ 96,174
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Amortization expense	8,098	7,631
Depreciation expense	11,881	10,256
Convertible notes discount amortization	7,950	62
Contingent consideration expense (income)	997	(13,991)
Impairment on long lived assets	4,010	—
Deferred income tax expense (benefit)	(23,057)	(6,275)
Provision for excess and obsolete inventory	1,848	4,106
Share-based compensation expense	13,883	13,091
Excess tax benefits from share-based awards	(242)	(285)
Amortization of deferred financing costs	2,914	697
Loss on disposal of assets	966	2,038
Other adjustments, net	500	864
Changes in operating assets and liabilities (excluding impact of acquired assets and assumed liabilities):		
Restricted cash	—	96,202
Accounts receivable	17,510	39,185
Inventories	13,246	(22,435)
Deferred costs	26,069	189,172
Vendor advances	21,747	(23,204)
Prepaid expenses and other assets	1,542	2,086
Accounts payable and accrued expenses	(14,738)	(25,495)
Customer deposits	(93,812)	(56,283)
Deferred revenue	(59,633)	(337,900)
Income taxes	(6,216)	896
Other, net	254	704
Net cash used in operating activities	(109,163)	(22,704)
Cash flows from investing activities:		
Purchases and deposits on property, plant and equipment	(3,710)	(35,541)
Other investing activities	52	293
Net cash used in investing activities	(3,658)	(35,248)
Cash flows from financing activities:		
Borrowings under credit facility	—	145,000
Principal payments under credit facility	(43,625)	(1,813)
Proceeds from issuance of convertible notes	—	220,000
Cash paid for bond hedges	—	(57,923)
Proceeds from issuance of warrants	—	41,623
Proceeds and related excess tax benefits from exercise of share-based awards	358	1,507
Payments of contingent consideration from business combinations	—	(4,903)
Payments related to share repurchases to satisfy statutory minimum tax withholdings	(1,516)	(1,153)
Deferred financing costs	(2,266)	(11,471)
Other financing activities	(35)	(498)
Net cash (used in) provided by financing activities	(47,084)	330,369
Effect of foreign exchange rates on cash	282	(76)
(Decrease) increase in cash and cash equivalents	(159,623)	272,341
Cash and cash equivalents at beginning of period	418,095	206,878
Cash and cash equivalents at end of period	$ 258,472	$ 479,219
Supplemental cash flow information:		
Cash paid for interest	$ 8,254	$ 2,470
Non-cash investing and financing activities:		
Decrease in accounts payable and accrued expenses for property, plant and equipment	$ (683)	$ (3,469)
Fair value of shares issued for acquisition	$ 14,463	$ —
Contingent consideration issued for acquisition	$ 6,211	$ —
Unpaid deferred financing costs	—	635

See accompanying notes to these condensed consolidated financial statements.

In addition, our results of operations are affected by a number of other factors including the availability and market price of polysilicon, alumina material, helium and certain process consumables, availability of raw materials, foreign exchange rates, interest rates, commodity prices (including molybdenum, steel and graphite prices) and macroeconomic factors, including the availability of capital that may be needed by our customers, as well as political, regulatory and legal conditions in the international markets in which we conduct business, including China.

Order Backlog

Our order backlog as of September 28, 2013 primarily consists of amounts due under written contractual commitments and signed purchase orders for PV, polysilicon and sapphire equipment not yet shipped to customers, deferred revenue (which represents amounts for equipment that has been shipped to customers but not yet recognized as revenue) and short-term contracts or sales orders for sapphire materials. Substantially all of the contracts in our order backlog for PV, polysilicon and sapphire equipment require the customer to either post a standby letter of credit in our favor and/or make advance payment prior to shipment of equipment.

From the date of a written commitment, we generally would expect to deliver PV equipment products over a period ranging from three to nine months, sapphire equipment products over a period ranging from six to eighteen months and polysilicon equipment products over a period ranging from twelve to eighteen months, however, in certain cases revenue may be recognized over longer periods. Although most of our orders require non-refundable deposits, our order backlog as of any particular date should not be relied upon as indicative of our revenues for any future period.

If a customer fails to perform its outstanding contractual obligations on a timely basis, and such failure continues after notice of breach and a cure period, we may terminate the contract. Our contracts generally do not contain cancellation provisions and in the event of a customer breach, the customer may be liable for cash damages resulting from the material breach of the terms of the agreement. During the nine months ended September 28, 2013, we have identified certain contracts in our order backlog that have not been terminated or modified, however, we expect that the customers associated with these contracts will not fulfill their obligations under these respective contracts. As a result, during the nine months ended September 28, 2013, we modified or removed contracts from our reported order backlog resulting in a $368.2 million reduction (almost 97% of the reduction was attributable to four contracts), $358.0 of which are from such contracts that have not been legally terminated or modified, but we have removed amounts from our reported backlog. During the nine-month period ended December 31, 2012, we terminated, modified or removed contracts resulting in a $220.5 million reduction in our order backlog (81% of the reduction was attributable to six contracts). During the nine months ended September 28, 2013, we recorded revenues of $19.3 million from three terminated contracts and during the nine-month period ended September 29, 2012, we recorded revenues of $14.9 million from terminated contracts.

Although we have a reasonable expectation that most of our customers will substantially perform on their contractual obligations that are included in our reported order backlog, we attempt to monitor those contracts that we believe to be at risk. Due to recent industry market conditions, as noted above, we have removed certain amounts from our reported order backlog that are attributable to contracts that we do not believe our customers will fulfill (even though such contracts have not been legally terminated).

We conduct negotiations with certain customers who have requested that we extend their delivery schedules or make other contract modifications, or who have not provided letters of credit or made payments in accordance with the terms of their contracts. We engage in a certain level of these negotiations in the ordinary course. We monitor the effect, if any, that these negotiations may have on our future revenue recognition. If we cannot come to an agreement with these customers or if we believe our customers cannot or will not perform their obligations, our reported order backlog could be reduced. Other customers with contracts in our order backlog that are not currently under negotiation, or that we consider to be at risk, may approach us with similar requests in the future, or may fail to provide letters of credit or to make payments when due. If we cannot come to an agreement with these customers, our order backlog could be further reduced. If we do come to an agreement with customers on extending delivery schedules, the timing of expected revenue recognition could be pushed into periods later than we had anticipated.

The table below sets forth our order backlog as of September 28, 2013 and December 31, 2012:

Product Category	September 28, 2013 Amount	September 28, 2013 % of Backlog	December 31, 2012 Amount	December 31, 2012 % of Backlog
	(dollars in millions)			
Photovoltaic business	$ 2	—%	$ 4	1%
Polysilicon business	301	46%	529	42%
Sapphire business	355	54%	716	57%
Total	$ 658	100%	$ 1,249	100%

Our order backlog totaled $658.3 million as of September 28, 2013. Our order backlog attributable to our PV, polysilicon and sapphire businesses as of September 28, 2013, included deferred revenue of $62.3 million, of which $0.9 million related to our PV business, $56.2 million related to our polysilicon business and $5.2 million related to our sapphire business. Cash received in deposits related to our order backlog where deliveries have not yet occurred was $89.8 million as of September 28, 2013.

As of September 28, 2013, our order backlog consisted of contracts with 9 PV customers, contracts with 13 polysilicon customers, and contracts with 74 sapphire equipment and material customers. Orders reflected in our backlog at September 28, 2013 are attributable to customers that have been in backlog for at least the past two quarters. Our order backlog as of September 28, 2013, included $261.3 million, $144.1 million and $105.0 million attributed to three different customers, each of which individually represents 40%, 22% and 16%, respectively, of our order backlog.

Results of Operations

The following tables set forth the results of operations as a percentage of revenue for the three and nine months ended September 28, 2013 and September 29, 2012:

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Statements of Operations Data:*				
Revenue	100%	100%	100%	100%
Cost of revenue	56	68	66	61
Gross profit	44	32	34	39
Research and development	52	17	21	8
Selling and marketing	9	3	4	2
General and administrative	43	14	18	7
Contingent consideration expense (income)	12	(9)	—	(1)
Restructuring charges	10	—	3	—
Amortization of intangible assets	7	2	3	1
(Loss) income from operations	(89)	5	(15)	22
Interest expense	(16)	(1)	(8)	(1)
(Loss) income before income taxes	(105)	4	(23)	21
Provision (benefit) for income taxes	(11)	1	(6)	7
Net (loss) income	(94)%	3%	(17)%	14%

* Percentages subject to rounding.

	Nine Months Ended	
	September 28, 2013	September 29, 2012
	(dollars in thousands)	
Cash provided by (used in):		
Operating activities	$ (109,163)	$ (22,704)
Investing activities	(3,658)	(35,248)
Financing activities	(47,084)	330,369
Effect of foreign exchange rates on cash	282	(76)
Net (decrease) increase in cash and cash equivalents	$ (159,623)	$ 272,341

Cash Flows from Operating Activities

For the nine months ended September 28, 2013, our cash used in operations was $109.2 million. Our cash used in operations was driven primarily by a decrease in customer deposits of $93.8 million and a decrease in deferred revenue of $59.6 million. These amounts were offset by a decrease in deferred costs of $26.1 million and a decrease in vendor advances of $21.7 million. The use of cash is primarily the result of a number of polysilicon transactions which were recognized in revenue and earnings in the nine months ended September 28, 2013, for which payment had been received in the prior year.

For the nine months ended September 29, 2012, our cash used in operations was $22.7 million. Our cash used in operations was driven primarily by a decrease in deferred revenue of $337.9 million, a decrease in customer deposits of $56.3 million, a decrease in accounts payable and accrued expenses of $25.5 million and an increase in vendor advances of $23.2 million. These items were partially offset by a decrease in deferred cost of $189.2 million, a decrease in restricted cash of $96.2 million, net income of $96.2 million and a decrease in accounts receivable of $39.2 million.

Cash Flows from Investing Activities

For the nine months ended September 28, 2013, our cash used in investing activities was $3.7 million, comprised primarily of capital expenditures for the period.

For the nine months ended September 29, 2012, our cash used in investing activities was $35.2 million. This is comprised primarily of capital expenditures for the period which were approximately $35.5 million. These capital expenditures were primarily used for expanding our sapphire business and improving our business information systems.

Cash Flows from Financing Activities

For the nine months ended September 28, 2013, cash used by financing activities was $47.1 million, driven primarily by $43.6 million principal payments under our amended credit agreement with Bank of America and $2.3 million of financing costs on the outstanding term loan as prescribed by this amended credit agreement.

For the nine months ended September 29, 2012, cash provided by financing activities was $330.4 million, driven primarily by borrowings of $145.0 million made under our credit facility, $220.0 million in proceeds from the issuance of convertible notes and $41.6 million in proceeds from the issuance of warrants. These cash inflows were offset by cash paid for bond hedges of $57.9 million, payments of deferred financing costs of $11.5 million, payments of contingent consideration from business combinations of $4.9 million and principal payments under the credit facility of $1.8 million.

We believe that our existing cash, as well as cash that we are eligible to receive under the Prepayment Agreement with Apple Inc. which will be used principally in connection with our sapphire material operations at our Arizona facility (see further description below), cash we received on our 3.0% convertible notes and customer deposits will be sufficient to satisfy working capital requirements, commitments for capital expenditures, and other cash requirements for at least the next twelve months. We, however, consistently review strategic opportunities in an effort to find opportunities to improve our products, technologies, operations, overall business and increase shareholder value, these opportunities may include business acquisitions, technology licenses, dividends to shareholders, prepayment of our outstanding convertible notes using cash, accelerated prepayments of outstanding indebtedness and joint ventures. If we were to engage in any of the foregoing, it could require that we utilize a significant amount of our available cash and, as a

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result, we may be required to increase our outstanding indebtedness or raise additional capital in through the sale of equity, debt, convertible notes or a combination thereof, which may not be available on favorable terms, or at all.

Long Term Debt

Bank of America Credit Agreement

On January 31, 2012, we, our U.S. operating subsidiary (the "U.S. Borrower") and our Hong Kong subsidiary (the "Hong Kong Borrower") entered into a credit agreement (the "2012 Credit Agreement"), with Bank of America, N.A., as administrative agent, Swing Line Lender and L/C Issuer ("Bank of America") and the lenders from time to time party thereto. The 2012 Credit Agreement consisted of a term loan facility (the "2012 Term Facility") provided to the U.S. Borrower in an aggregate principal amount which was initially $75.0 million with a final maturity date of January 31, 2016, a revolving credit facility (the "U.S. Revolving Credit Facility") available to the U.S. Borrower in an aggregate principal amount which was initially $25.0 million with a final maturity date of January 31, 2016 and a revolving credit facility (the "Hong Kong Revolving Facility"; together with the U.S. Revolving Credit Facility, the "2012 Revolving Credit Facility"; together with the "Term Facility", the "2012 Credit Facilities") available to the Hong Kong Borrower in an aggregate principal amount which was initially $150.0 million with a final maturity date of January 31, 2016 (which amount was reduced to $125 million pursuant to the 2013 Amendment).

On October 30, 2013, the Company terminated our 2012 Credit Agreement. As of September 28, 2013, there was approximately $96 million outstanding borrowings under the 2012 Term Facility which was paid in full on October 30, 2013 by using available cash. As of October 30, 2013, there are no amounts outstanding under the 2012 Revolving Credit Facility and no outstanding stand-by letters of credit under the 2012 Revolving Credit Facility. In connection with the termination of the 2012 Credit Agreement, the Company expects to recognize a charge in the fourth quarter of approximately $3.6 million relating to deferred issuance costs that will be written off upon the termination of the agreement. As of September 28, 2013 and October 30, 2013 we were in compliance with the covenants in the 2012 Credit Agreement.

3.00% Convertible Senior Notes due 2017

On September 28, 2012, we issued $220.0 million aggregate principal amount of 3.00% Convertible Senior Notes due 2017 (the "Notes").The net proceeds from the issuance of the Notes were approximately $212.6 million, after deducting fees paid to the initial purchasers and other offering costs. The Notes are senior unsecured obligations, which pay interest in cash semi-annually at a rate of 3.00% per annum. The Notes are governed by an Indenture dated September 28, 2012 with U.S. Bank National Association, as trustee. The Notes are not redeemable by us and all remained outstanding at September 28, 2013.

Convertible Note Hedge Transactions and Warrant Transactions

In connection with the issuance of the Notes, we entered into separate convertible note hedge transactions and warrant transactions with certain counterparties. For additional information on the convertible note hedge transactions and warrant transactions, see Note 10 to the notes to our consolidated financial statements in Item 8 "Financial Statements and Supplementary Data" included in our Transition Report on Form 10-K filed for the nine-month period ended December 31, 2012.

Prepayment Agreement with Apple Inc.

On October 31, 2013, our wholly-owned subsidiary, GTAT Corporation, entered into a Prepayment Agreement with Apple Inc. pursuant to which Apple is scheduled to make prepayments to GTAT in the aggregate amount of approximately $578 million, referred to herein as the Prepayment Amount, in four separate installments (the final installment to be made in April 2014), for the purpose of GTAT acquiring ASF systems and related equipment. GTAT is required to repay this amount ratably over a five year period ending in January 2020, and GTAT is required to repay this amount ratably over a five year period ending in January 2020, either as a credit against Apple purchases of sapphire goods under the MDSA or as a direct cash payment. GTAT's obligation to repay the Prepayment Amount may be accelerated under certain circumstances. GTAT, our principal U.S operating subsidiary, has granted Apple a security interest in certain of its assets to secure GTAT's obligations under the Prepayment Agreement There are no minimum purchase requirements under the terms of the Master Development and Supply Agreement.